# 3Q 2019 | Global Equity Market Review

WST CAPITAL MANAGEMENT

## EXECUTIVE SUMMARY

September results may have teased long-awaited equity rotations – with value topping growth, small-cap outperforming and signs of life observed in ex-US stocks – but 3Q overall evidenced the same themes and performance drivers from 2Q. Albeit more acute in 3Q, equity performance patterns were comparable; as shown in the below chart, markets opened each quarter on a positive note before selling off mid-period and ultimately bouncing back on continued accommodation by central banks.

US large cap, as measured by the S&P 500, led equity markets with a gain of 1.7% during the period, exhibiting an interesting mix of positive momentum in value and negative momentum in smaller names. Global equities posted a return of 0.1%, propped up entirely by the US as developed international stocks (as measured by the MSCI EAFE) shed one percentage point and emerging markets fell 4.1%, combining for a negative USD result outside the US. Global yields rose in September but with further easing and stimulus globally, bonds rose during the quarter overall (+0.7% for the Global Aggregate), besting stocks.

Following an overall positive result in a quiet July, August saw volatility uncorked and equity markets capitulate as the US-China Trade War escalated and investors connected the dots between worrying aspects of the global macro picture. The month's day-to-day progress seemed to reflect a mix of profit-taking and more decisive risk-off selling as investors weighed the adequacy of a Fed-led global monetary pivot against mounting pressure from various trade skirmishes and structural headwinds globally. Bonds rallied and the US 30-year Treasury notched an all-time closing low, dipping below 2%. The Treasury trade retraced a bit in mid-September, posting a technical correction as equities strengthened over several sessions, but the 10-year yield ultimately closed the quarter down around 30 basis points.

As shown in the below chart, from a trading perspective August's result was less of a gradual slide than it was a ping-pong match between short-term support and resistance; 11 of the month's 22 trading sessions closed up or down 1% or greater (16 saw intra-day moves greater than 1%), and the S&P averaged (in absolute terms) a daily move of 1.11%. The CBOE VIX Index – or so-called "Fear Index" – on August 5th hit 25, roughly the level seen in an October 2018 sell-off that preceded a more comprehensive meltdown in December. September, by contrast, saw just two sessions with moves greater than 1% and averaged (in absolute terms) a daily move around 40 basis points, while the VIX traded in much more modest range.

Results were mixed at the global sector level, clearly articulating pain points relative to the US-China Trade War (strong September rallies couldn't undo August's damage in the Industrials, Materials and Energy sectors). Health Care, which fell 2.2% during the quarter, was the only sector to post negative returns in each month (including an August sell-off where other defensive industries posted gains); the sector has struggled with US politics-driven pressure on the outlook.

US stocks fared better than ex-US peers, with a long-disfavored value factor driving excess upside in the two positive months (but underperforming growth significantly in August). The equal-weight S&P 500 index (+0.8%) lagged the cap-weighted index, as did mid-caps (+0.5%); small caps (-2.4%) declined outright. All said, disaggregated US equity performance clearly articulated a rotation to pure value characteristics; case in point, in September the S&P 500 Pure Value Index (a concentrated index with stricter value criteria) gained 6.1% vs. 3.7% for the traditional value index.

Currency was a major driver of international equity performance in 3Q, blunting or reversing positive numbers, exacerbating losses and driving country-level dispersion (between USD & local returns) as wide as 850 basis points at a country level – such was observed in Brazil. Ex-US stocks overall returned -1.7% during the quarter, faring substantially worse in dollar than in local currency terms (+0.9%) as the USD strengthened against most currencies, including a devalued Chinese renminbi, struggling Indian rupee, sliding Brazilian Real and free-falling Argentine peso. July's currency spread (favoring the dollar) was nearly 150 basis points for that index, while August tacked on another 90 basis points of currency-driven dispersion. Developed international stocks, as measured by the MSCI EAFE, posted -1.0% for 3Q in USD terms but +1.8% in local terms, as Japanese Yen appreciation hedged some of the drag. While Hong Kong, roughly 4% of the EAFE index, felt only modest headwinds from USD strengthening, that country fell nearly 12% during a quarter marked by at times-convulsive pro-democracy protests. Currency impacts deepened modest losses in China, India and Brazil (each down around 5% USD), and the MSCI Emerging Markets Index fell around 4.1% USD (-1.9% local) for the quarter.

| Comparative Index Returns (%) | 1 Mo. | 3 Mo. | YTD | 1 Yr. |
|---|---|---|---|---|
| S&P 500 Index | 1.9 | 1.7 | 20.6 | 4.3 |
| S&P 500 Equal-Weight Index | 3.1 | 0.8 | 20.1 | 3.4 |
| S&P 500 Growth Index | 0.3 | 0.7 | 21.1 | 3.2 |
| S&P 500 Value Index | 3.7 | 2.8 | 20.0 | 5.6 |
| Russell Mid Cap Index | 2.0 | 0.5 | 21.9 | 3.2 |
| Russell 2000 Index | 2.1 | -2.4 | 14.2 | -8.9 |
| MSCI EAFE Index | 2.9 | -1.0 | 13.3 | -0.8 |
| MSCI Emerging Markets Index | 1.9 | -4.1 | 6.2 | -1.6 |
| MSCI All Country World Index | 2.2 | 0.1 | 16.7 | 1.9 |
| MSCI ACWI ex-US Index | 2.6 | -1.7 | 12.1 | -0.7 |
| BBg Barc US Aggregate Bond Index | -0.5 | 2.3 | 8.5 | 10.3 |
| BBg Barc US Corporate High Yield Index | 0.4 | 1.3 | 11.4 | 6.4 |
| 60% MSCI ACWI/ 40% BBg Barc US Agg Bond | 1.1 | 1.0 | 13.6 | 5.6 |

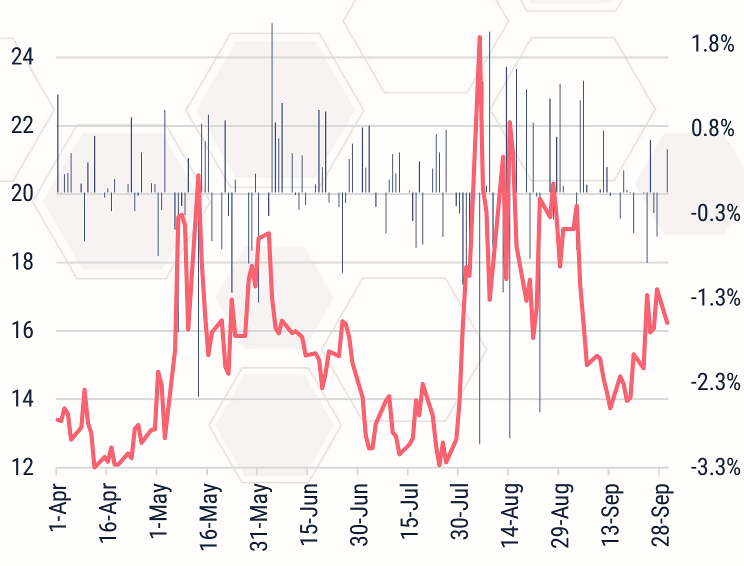
| S&P Global BMI Sector Returns (%) | 1 Mo. | 3 Mo. | YTD | 1 Yr. |
|---|---|---|---|---|
| Consumer Discretionary | 1.6 | 0.0 | 17.0 | -0.7 |
| Consumer Staples | 0.8 | 3.4 | 17.7 | 9.7 |
| Energy | 4.7 | -5.8 | 6.2 | -16.7 |
| Financials | 4.8 | -1.0 | 13.4 | 0.0 |
| Health Care | -0.6 | -2.2 | 8.2 | -3.8 |
| Industrials | 3.0 | -1.0 | 17.0 | -1.7 |
| Information Technology | 1.8 | 2.2 | 28.4 | 6.6 |
| Materials | 2.5 | -4.2 | 9.7 | -5.5 |
| Communication Services | 0.2 | 0.1 | 15.3 | 1.7 |
| Utilities | 3.0 | 5.4 | 19.2 | 19.9 |
| Global Property | 2.3 | 3.5 | 19.0 | 13.0 |
| MLP | 2.7 | 6.0 | 23.2 | 16.4 |

| Key Indicators | Current | 1 Mo. Change | 3 Mo. Change | YTD Change | 1 Yr. Change |
|---|---|---|---|---|---|
| US 10-Year Tsy Yield (%)/ bps | 1.68% | +18 | -32 | -101 | -138 |
| SPDR Gold Trust Price ($) | $139 | -$5 | +$6 | +$18 | +$26 |
| WTI ($/ bb) | $54 | -$1 | -$4 | +$9 | -$19 |
| VIX (Level)/ % Change | 16.24 | -14% | +8% | -36% | +34% |

Source: FactSet for all index and market data, with all index returns shown in US dollars in table as of September 30, 2019. Please see notes & disclosures.

**Daily VIX & S&P 500 Return**
6 Months Ended September 30, 2019

S&P 500 Daily Return (R)
VIX Index Level (L)



# 3Q 2019 | Fixed Income Market Review

CAPITAL MANAGEMENT

## EXECUTIVE SUMMARY

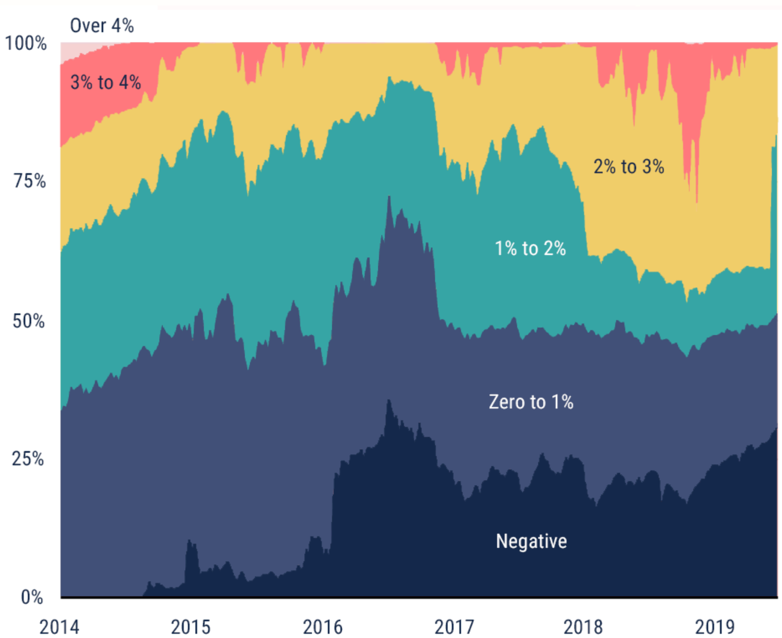
Global yields rose in September as key sovereign rallies partially retraced but with further easing and stimulus, bonds were up for the quarter overall (+0.71% for the Global Aggregate) and led by the US (+2.27% for the US Aggregate). Global fixed income bested global stocks, which – as measured by the MSCI ACWI – added just 10 basis points in USD terms.

The quarter opened with mixed, if largely muted, results for global bonds in July before a strong August showing, as equities sold off in response to escalating trade conflicts and macroeconomic headlines that continue to upset the global growth outlook. Risk-asset investors appeared to weigh the adequacy of a Fed-led global monetary pivot against mounting pressure from various trade skirmishes and structural headwinds globally. In August markets reacted, further, to the US 10-year yield slipping below the 2-year (the first such observation since 2007) and, separately, the Chinese government moving to devalue its currency through lending rate reform, leading the US to label the country a currency manipulator. US treasuries sustained an exceptional run, with the 30-year hitting an all-time closing low (just below 2%) in August before edging back to 2.12% to close the quarter.

Ex-US developed sovereigns posted mixed results country-by-country, with key European issues rallying sharply while the bonds of export-dependent Asian economies struggled from trade war implications and currency impacts. Italy and the UK each were up over 7% in local terms, while Germany and Spain added nearly 2%; on the flipside, the USD strengthened against most currencies, including a devalued Chinese renminbi, struggling Indian rupee, sliding Brazilian Real and free-falling Argentine peso. As in equity markets, dollar strengthening was a headwind across ex-US bond segments for most of the quarter, driving a negative result for emerging sovereigns (-0.73%) and blunting positive returns across major indices and at the country level. Developed ex-US sovereigns overall ultimately posted +2.18% in USD terms. As shown below, 3Q served to expand the share of negative-yielding debt and interest rates globally are now lower than they were in the crisis environment of 2008.

The run persisted for global corporate debt (+1.21%), including US high yield (which added 1.33% for the quarter and posted a positive return even during August's risk-off environment). Given strong fundamentals and still-substantial yield weighed against a ballooning share of negative-yielding debt among global bond supply, support levels even for the riskiest credit may have been redefined in the intermediate term.

### Sub-Zero: Developed Sovereign Yield Distribution




| Index Total Returns (%) | 1 Mo. | 3 Mo. | YTD | 1 Yr. |
|---|---|---|---|---|
| BBg Barc Global Aggregate | -1.02 | 0.71 | 6.32 | 7.57 |
| BBg Barc Global Aggregate ex-US | -1.42 | -0.58 | 4.38 | 5.31 |
| BBg Barc US Aggregate | -0.53 | 2.27 | 8.52 | 10.25 |
| BBg Barc US Intermediate Aggregate | -0.23 | 1.38 | 6.18 | 8.05 |
| S&P Global Dev. Sov. ex-US Bond Index | -0.63 | 2.18 | 6.15 | 7.66 |
| S&P Eurozone Dev. Sovereign Bond | -1.31 | -0.95 | 4.04 | 3.72 |
| S&P Pan-Europe Dev. Sovereign Bond | -0.78 | -0.34 | 4.61 | 4.24 |
| ICE BofAML Emerging Markets Sov. Bond | 0.36 | -0.73 | 4.41 | 8.16 |
| S&P U.S. Current 2-Year Tsy Bond Index | -0.16 | 0.55 | 2.87 | 4.18 |
| S&P U.S. Current 10-Year Tsy Bond Index | -1.44 | 3.26 | 10.79 | 15.05 |
| S&P U.S. Current 30-Year Tsy Bond Index | -3.03 | 9.54 | 22.09 | 27.50 |
| BBg Barc US Floating Rate Notes (<5 Yr) | 0.27 | 0.78 | 3.21 | 3.07 |
| S&P US Treasury TIPS | -0.93 | 1.55 | 7.45 | 6.95 |
| BBg Barc Municipal Bond Index | -0.80 | 1.58 | 6.75 | 8.52 |
| BBg Barc Global Aggregate - Corporate | -0.77 | 1.21 | 9.55 | 8.62 |
| BBg Barc US Corporate (AA) | -0.64 | 2.85 | 10.31 | 11.45 |
| BBg Barc US Corporate (BBB) | -0.73 | 3.01 | 12.61 | 12.71 |
| BBg Barc US Corporate High Yield | 0.36 | 1.33 | 11.41 | 6.33 |
| S&P/LSTA Leveraged Loan | 0.68 | 1.33 | 8.21 | 3.43 |
| BBg Barc Global Agg Securitized - US MBS | 0.07 | 1.37 | 5.60 | 7.77 |
| BBg Barc Global Agg Securitized - US ABS | -0.15 | 0.92 | 4.13 | 5.40 |

| Key Rates (%/ bps) | Current | 1 Mo. Change | 3 Mo. Change | YTD Change | 1 Yr. Change |
|---|---|---|---|---|---|
| US 3 Month | 1.82 | -16 | -26 | -58 | -33 |
| US 2 Year | 1.62 | +12 | -12 | -88 | -119 |
| US 5 Year | 1.55 | +16 | -20 | -96 | -140 |
| US 10 Year | 1.68 | +18 | -32 | -101 | -138 |
| US 30 Year | 2.12 | +16 | -40 | -89 | -107 |
| 1 Month USD LIBOR | 2.02 | -7 | -38 | -49 | -24 |
| 3 Month USD LIBOR | 2.09 | -5 | -23 | -72 | -31 |
| 6 Month USD LIBOR | 2.06 | +2 | -14 | -82 | -55 |
| 12 Month USD LIBOR | 2.03 | +6 | -15 | -97 | -89 |

| Credit Spreads (bps) | Current | 1 Mo. Change | 3 Mo. Change | YTD Change | 1 Yr. Change |
|---|---|---|---|---|---|
| US Corporate OAS | 57 | -5 | -4 | -26 | +1 |
| US Corp. High Yield OAS | 373 | -20 | -4 | -153 | +57 |

| Key Indicators | Current | 1 Mo. Change | 3 Mo. Change | YTD Change | 1 Yr. Change |
|---|---|---|---|---|---|
| 10 Yr-2-Yr Tsy Spread (bps) | 6 | +6 | -20 | -12 | -18 |
| WTI ($/ bb) | $54.09 | -$.98 | -$4.11 | +$8.94 | -$19.07 |
| Core CPI | 265 | +.4 | +2 | +5 | +6 |
| Brk. Inflation: 5 Yr %/ bps | 1.39% | +1 | -16 | -21 | -62 |
| Brk. Inflation: 10 Yr %/ bps | 2.06% | +1 | -4 | -2 | -2 |

Source for above: FactSet for all index and market data, shown in USD as of September 30, 2019. Source for chart at left: BlackRock Investment Institute, with data from J.P. Morgan and Refinitiv Datastream, July 2019. Notes: The chart areas show the share of bonds by market value within the J.P. Morgan Global Developed Bond Index with yields in each range.

WST CAPITAL MANAGEMENT

## International Select RM (ISRM)

During 3Q the ISRM composite added 3.22% gross (+3.04% net) versus an MSCI ACWI ex-US Index that declined, returning -1.70%. Averaging around 88% in equity for the period, year to date ISRM is up 10.92% gross (+10.34% net) versus the index return of 12.06%.

ISRM opened 3Q fully allocated to equities, with roughly half of assets invested in minimum-volatility global exposure and the balance equal in global Infrastructure and Utilities (the Infrastructure position replaced Health Care in the first trading session of 3Q, while Utilities has been held at 25% since the open of 2019). The allocation to this sector pair held for the full quarter, while August equity volatility precipitated a series of trades partially out of, and then back into, the broader equity position. In mid-August the minimum-volatility ACWI holding was trimmed to 25% to fund a position in dollar-hedged international bonds; that trade was reversed at the end of August, restored again in early September and unwound a final time mid-month. ISRM closed 3Q allocated to mirror its initial allocation.

Within equity, ISRM derived relative strength from both its rate-sensitive sector allocations and its tilt to minimum volatility as a factor. Utilities (the best-performing global sector in the quarter and year to date) bested the MSCI ACWI ex-US by over 700 basis points during the quarter, while Infrastructure underperformed in July but benefitted from the risk sell-off in August, posting a modestly positive return vs. the ACWI ex-US and tacking on another couple of percentage points in September; ultimately Infrastructure outperformed by 210 basis points. Minimum volatility was a favorable factor in 3Q (with the min-vol index outperforming the ACWI ex-US by roughly 450 basis points) and as such the global equity position added value. The ex-US bond rotations were overall additive relative to equity exposure across the two holding periods.

## Emerging Markets RM (EMRM)

A multi-asset portfolio targeting growth and income from emerging markets, the EMRM composite returned -0.97% gross (-0.99% net) in 3Q, faring better than a 50/50 emerging equity/ fixed income blend that returned -1.41%. Year to date the strategy is up 4.73% gross (+4.65% net) vs. 8.56% for the benchmark.

EMRM opened 3Q positioned as it had been for all but seven trading days in 2019 – split evenly between minimum-volatility EM equities and EM high yield. In mid-August the model rotated briefly out of equity and into dollar-hedged international bonds, three sessions later reversing that trade while also shifting from EM high yield to core EM debt. In mid-September the core position rotated to developed ex-US bonds (also for just three sessions), re-entered briefly before again rotating to EM high yield. EMRM ended 3Q allocated evenly between core ex-US bonds and minimum-volatility EM equity.

Please see following pages for a review of Global Allocation Risk-Managed as well as Outlook & Observations

## Annualized Returns

*as of September 30, 2019*

| | 3Q '19 | YTD | 1 Yr | 3 Yrs | 5 Yrs | Since Incep |
|---|---|---|---|---|---|---|
| International Select RM Composite (Gross) | 3.22 | 10.92 | 2.20 | 8.04 | 4.53 | 4.82 |
| International Select RM Composite (Net) | 3.04 | 10.34 | 1.46 | 7.27 | 3.86 | 4.06 |
| MSCI ACWI ex-US Index | -1.70 | 12.06 | -0.72 | 6.85 | 3.39 | 3.69 |
| Diversified Income RM Composite (Gross) | 1.47 | 6.93 | 7.36 | 3.36 | 3.69 | 4.48 |
| Diversified Income RM Composite (Net) | 1.37 | 6.59 | 6.90 | 2.92 | 3.26 | 4.04 |
| BBg Barclays Global Aggregate Index | 0.71 | 6.32 | 7.60 | 1.59 | 1.99 | 2.24 |
| NASDAQ Multi-Asset Div. Income Index | 1.25 | 15.09 | 6.36 | 6.03 | 3.98 | 4.84 |
| Global Allocation RM Composite (Gross) | 1.47 | 7.55 | 2.26 | 6.67 | - | 5.15 |
| Global Allocation RM Composite (Net) | 1.36 | 7.22 | 1.81 | 6.18 | - | 4.67 |
| 60% ACWI / 40% Agg Blended Benchmark | 1.00 | 13.61 | 5.60 | 7.48 | - | 5.96 |
| Global Bond RM Composite (Gross) | 1.00 | 8.99 | 7.06 | 4.55 | 4.18 | 3.67 |
| Global Bond RM Composite (Net) | 0.92 | 8.74 | 6.73 | 4.07 | 3.66 | 3.16 |
| BBg Barclays Global Aggregate Index | 0.71 | 6.32 | 7.60 | 1.59 | 1.99 | 2.02 |
| Emerging Markets RM Composite (Gross) | -0.97 | 4.73 | 0.95 | 1.72 | - | 4.50 |
| Emerging Markets RM Composite (Net) | -0.99 | 4.65 | 0.84 | 1.67 | - | 4.46 |
| 50% EM Equity/ 50% Bond Benchmark Blend | -1.41 | 8.56 | 4.45 | 5.53 | - | 8.27 |

Source: FactSet. Composite inception dates are 6/30/2013, 9/30/2013, 12/31/2014, 12/31/2014 and 12/31/2015 for ISRM, DIRM, GARM, GBRM & EMRM respectively; benchmark SI returns refer to those dates.

## Diversified Income RM (DIRM)

The DIRM composite returned 1.47% gross (+1.37% net) during 3Q, modestly outperforming the Global Aggregate (+0.71%) and the NASDAQ Multi-Asset Diversified Income Index (+1.25%). Year to date the strategy is up 6.93% gross (+6.59% net) versus global bonds up 6.32% and the multi-asset benchmark up 15.09% - a return driven largely by 20%+ moves in MLP and equity or equity-linked components of that index.

The strategy carried its 2Q positioning through July, overweighting US core bonds at roughly 50% and evenly splitting 40% of assets between US municipal high yield (a much-favored holding in the last two years and a fixture since 4Q '18) and convertibles, with the balance in dollar-hedged international bonds. In early August DIRM dropped convertibles, dodging a pullback, and at the same time trimming US core to 30% and allocating roughly 40% to short investment-grade. DIRM again repositioned in mid-September, trimming US short bonds to add roughly 20% in short Treasuries and another 10% to ex-US bonds, rounding out allocations to US aggregate exposure and municipal high yield.

Year to date DIRM has been leveraged to the rally in core fixed through a diversified, duration-capped mix of core- and core-plus investment ideas. While the strategy may allocate flexibly within its "go-anywhere" income opportunity set, the stability of positioning year to date speaks to the model's assessment of volatility risk patterns in more explicitly equity-linked securities and risk-asset sectors such as corporate high yield or MLP. 3Q saw the model shift a bit more actively around duration as yield curves reshaped globally.

## Global Bond RM (GBRM)

In 3Q the GBRM composite delivered 1.00% gross (+0.92% net), edging out a 0.71% return for the Bloomberg Barclays Global Aggregate Index. Year to date GBRM is up 8.99% gross (+8.7% net) vs. 6.32% for the index.

Since the second trading session of 2019 GBRM has held steady at 40% in US municipal high yield and 20% each in emerging markets high yield, core ex-US bonds and core (USD-denominated) emerging markets debt. 3Q saw the model's first change - in mid-August the EM junk position was rolled into core ex-US bonds before being restored in mid-September. While essentially neutral from a total return perspective, this trade dampened volatility measurably during the period.

## Global Allocation RM (GARM)

*GARM is a target 60/40 solution allocated through three sub-models; ISRM is a 20% component, 45% sits in a US equity sub-model rotating between US style, size and cap factors. DIRM at 35% serves as the main income model.*

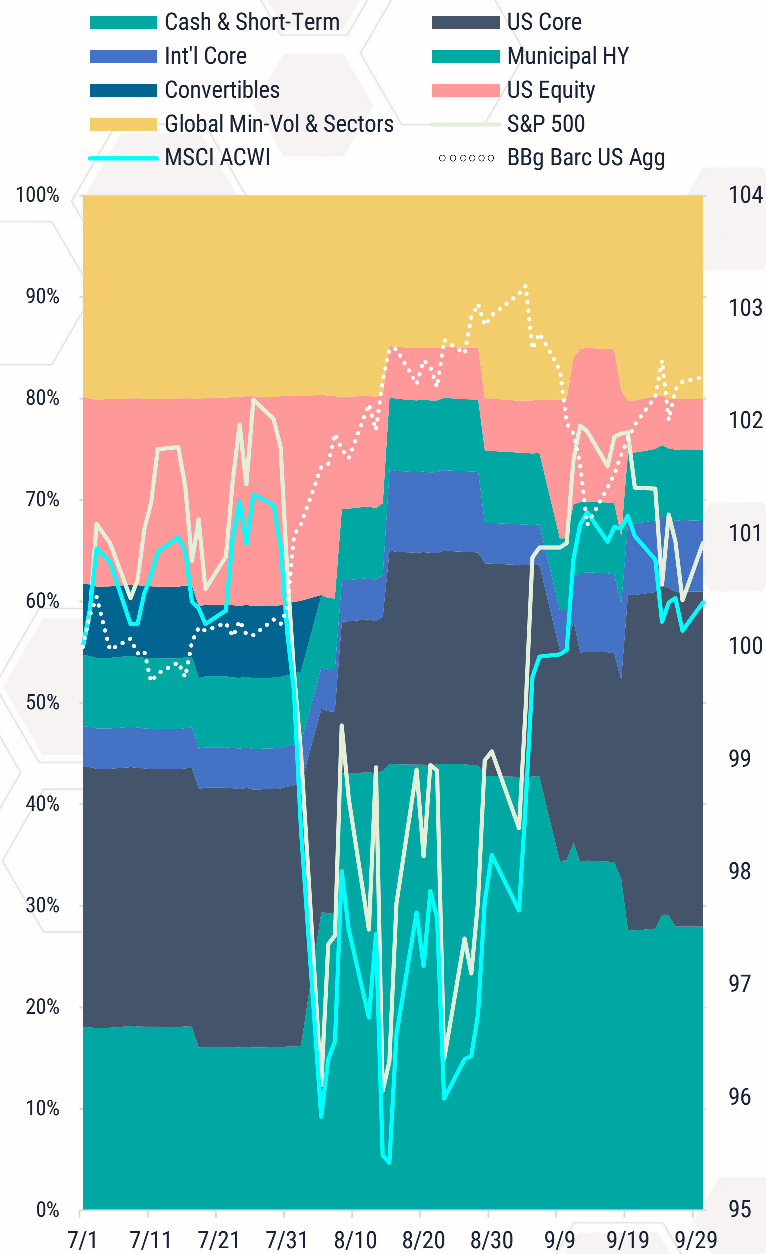
In 3Q the GARM composite returned 1.47% gross (+1.36% net), outperforming the 60/40 benchmark (+1.00%). A 7.55% gross (7.22% net) year-to-date return lags the benchmark (+13.61%) and – despite the recent strength in fixed income markets - primarily reflects the headwind of conservative equity positioning primarily in 1Q & 2Q.

Equity has averaged just 33% in 2019 overall and averaged 31% in 3Q. While ISRM - the international equity sub-model - has held a steady (90%+) equity footprint year-to-date and in 3Q especially, the US equity model contributed, on average, roughly just 12% in equity exposure during the quarter, reflecting the model's "take" on risk-adjusted return potential in US equity versus US bond markets. This dynamic is expressed in the chart at right, which plots daily summary allocations versus daily cumulative return for US and global equity and US bonds.

GARM opened the quarter with roughly 40% in equity, reflecting a fully allocated equity position ISRM and a moderate posture (50/50) in the US equity sub-model. Shifts within global equity and the income segment mirrored ISRM & DIRM, reflecting a preference for minimum-volatility factors, rate-sensitive equity sectors and momentum occurring in ex-US bonds and US aggregate bonds and municipal high yield.

The US equity component opened roughly half-exposed to equities, overweighting small-cap growth, allocating around 6% overall to a momentum factor holding and rounding out equity with roughly 2% in large-cap growth. In mid-July the model tacked on a modest position in large-cap value; that allocation rolled off in favor of core US bonds in mid-August, while the small-cap growth position dropped off in favor of short duration US credit several sessions prior. The small-cap growth position returned for several trading days in mid-September but was eventually eliminated and reallocated to US aggregate bonds, while the momentum position was trimmed mid-quarter. GARM wrapped 3Q allocated roughly 75% to fixed income, with that mix favoring US core bonds, core international bonds, 1-3 year Treasuries and municipal high yield. Equity reflected ISRM's fully invested position in global minimum-volatility combined with Utilities and Infrastructure, while the US equity sub-model was conservatively allocated, adding just 5% to equity exposure across modest momentum and large-cap growth bets.

**GARM Allocations (L) vs. Index Total Return (R)**
Daily for 3Q 2019, Cumulative Performance Indexed to 100




Source: FactSet for performance information & WST, Orion for allocation data. Categories shown above represent aggregate category-level exposure across multiple ETF holdings.

WST CAPITAL MANAGEMENT

## Thoughts on 2019-to Date

Headed into 3Q, asset-class positioning accounted for most of the performance spread between our risk-managed strategies and their "fully invested" benchmarks. While performance numbers are still digesting the lag from our conservative positioning amid rapidly re-risking markets in 1Q especially, this quarter served to narrow some gaps and, importantly, provided space for security selection to explore momentum shifts at the sector, spread category and factor level.

The difference in 3Q was that more decisive shifts in global monetary policy affected the global interest rate dynamic such that there occurred meaningful excess return opportunity in fixed income – which our models had favored on the basis of risk-adjusted trends throughout the year – versus equity. This dynamic also pushed rate-sensitive equity sectors into the pole position globally. Macro themes were articulated clearly in some regional and sector-level performance patterns. Strength in US fixed income assets, all said, essentially filtered for headline-driven US equity noise that has been disorienting for trend-following in recent months, allowing our models' general preference for US bonds over US equity to add value outside of intermittent downside protection.

As discussed in last quarter's commentary, our models' signals reflect a weight-of-the-evidence approach that simply struggles to outperform by jockeying around abruptly introduced or outright-new market phenomena (and we think the "Fed Put," which in some ways has manifested as whack-a-mole, qualifies). Trend-following as a style has been challenged meaningfully by the structure of volatility and the apparent unimportance of fundamental or true macro drivers over the last 18 months. We think this point is well-illustrated by intra-month re-risking that occurred in several strategies during 2Q; these events are rare and an aspect of our adaptive momentum approach, whereby our model can reconsider, or reverse, its own near-term signals. This optionality exists so that the model can act when it recognizes that an environment is disorienting – in essence, when it recognizes its limits in the short term. In such cases the model may deploy short-term decision-making guided more by the market than by its own longer-term historical assessment. All key risk management mechanisms remain in place – the model simply recalibrates at a different pace while it works to digest the new market regime. We believe this is the difference between static quant and what we do at WST Capital Management. It also means that our models can flexibly navigate if/ as needed, should markets persist in short-term redefinitions of asset rotation and correlation behavior. Importantly, in retrospect it signals the irregularity of market pattern in the last 18 months.

## Going Forward

As believers in our own science and the capacity of quant to add value, however, we are encouraged by signs that global markets may be positioned to support more substantial technical "arcs" than what we've dealt with since early 2018. US equity volatility and factor shifts aside, 3Q may have reflected the idea that key facts and trends are firm enough (in investor imagination, at least) to warrant renewed interest in fundamental and macro outlooks for certain assets. Global monetary policy direction is unambiguous and investor expectations seem rooted in a reasonable range of macro outcomes for key regions and economies. The current risk-asset run may yet have life in it given the apparent commitment of banks and policy-makers to extend the current economic cycle and revive growth through synchronized monetary easing and resolution of trade and political concern. However, we expect that markets may begin to reprice with the understanding that we find ourselves in a low-growth, low-inflation environment with well-defined monetary and economic direction. Global yields are lower today than they were mid-Crisis in 2008.

While the trade war, US political dramas, Brexit and other one-offs may drive short-term dislocations of "headline" value from fundamental value, market buying and selling going forward may reflect a hunt for value, period. Examples might be US investors rooting out real opportunity in oversold (or underbought) value and small cap; strengthening rotation from core bonds and developed Treasuries to emerging debt, and especially local debt and currency or other sources of real "carry"; a move from longer- to shorter-duration US fixed assets given a flattening curve; interest in industries or categories that have been rag-dolled by interest rate-, commodity- or dollar sensitivity, etc. We believe factors will continue to be an interesting prism on US equity behavior (and thus broad global equity exposure) and that global sectors will afford opportunity to capture themes in the global economic journey.

The formation of a "winner and losers" environment through more conventional perspective (i.e., fundamental or macro) implies – we hope – likely expression of trading patterns that are more stable and less defiant of long-term correlation data and other inputs into trend-focused quant. The market may finally become less a function of itself and more a mirror of actual opportunity on the basis of style, sector, factor and cyclical drivers. We believe tactical can add value by preserving capital as market run-off occurs, and we believe our particular brand of active quant can help align capital with market tendencies that drive investment outcomes.

## Thoughts on ETF Research, Marketplace & Liquidity

Finally, while we believe that the stage is set for the right systematic/ tactical frameworks to add more consistent value from the top down, security selection is a second and increasingly important tier of differentiation for our approach. In a beta-driven, fast-money, broad-strokes market, the effect or value of intensive ETF research efforts may be less apparent than in a market where trades "live" long enough to express differences in different types of ETFs that ostensibly do the same thing. We believe that now, more than ever, we have the opportunity to add value through our focus on understanding and selecting between flavors of input – i.e., ETFs – in our models. We engage constantly with product providers to understand the approach to portfolio construction, from index selection or guideline definition to bottom-up security selection, quantitative tilts and the "how, when, and why" of rebalance. The rise of ETFs has broadened the toolkit for our strategies in exciting ways; it has also created interesting problems and opportunities for tactical frameworks around those products. In our view, the proliferation of new product may further allow us to explore what value we can add through deliberate tracking error to outsized products that are increasingly at the mercy of retail ETF flow.

To that end, we engage closely with ETF capital markets teams to understand both primary and secondary market-making, and we do not take for granted that a given security is sufficiently liquid or efficiently tradable (by our firm, our execution partners or our model recipient clients) based simply on daily volume or "normal-market" metrics. We have doubled down on our engagement of the full value chain – ETF issuers, market-makers and liquidity aggregators – in effort to be confident in our assumptions about liquidity and execution in a variety of scenarios. We consider it a pillar of our duty to our clients and we are always happy to discuss this aspect of what we do and what we have learned.

As always, we thank you for your confidence in our firm and welcome your outreach.

# Notes & Disclosures

**Index Returns – *all shown in US dollars***

All returns shown trailing 9/30/2019 for the period indicated. "YTD" refers to the total return as of prior-year end, while the other returns are annualized. 3-month and annualized returns are shown for:

- The S&P 500 index is comprised of large capitalized companies across many sectors and is generally regarded as representative of US stock market and is provided in this presentation in that regard only.
- The S&P 500® Equal Weight Index (EWI) is the equal-weight version of the widely-used S&P 500. The index includes the same constituents as the capitalization weighted S&P 500, but each company in the S&P 500 EWI is allocated a fixed weight - or 0.2% of the index total at each quarterly rebalance. The S&P 500 equal-weight index (S&P 500 EWI) series imposes equal weights on the index constituents included in the S&P 500 that are classified in the respective GICS® sector.
- The S&P 500 Growth Index is comprised of equities from the S&P 500 that exhibit strong growth characteristics and is weighted by market-capitalization.
- The S&P 500 Value Index is a market-capitalization weighted index comprising of equities from the S&P 500 that exhibit strong value characteristics such as book value to price ratio, cash flow to price ratio, sales to price ratio, and dividend yield.
- The Russell 3000 Index tracks the performance of 3000 U.S. corporations, determined by market-capitalization, and represents 98% of the investable equity market in the United States.
- The Russell Mid Cap Index measures the mid-cap segment performance of the U.S. equity market and is comprised of approximately 800 of the smallest securities based on current index membership and their market capitalization.
- The Russell Micro Cap Index is a market-capitalization weighted index that measures the performance of 2000 small-cap and mid-cap securities. The index was formulated to give investors an unbiased collection of the smallest tradable equities still meeting exchange listing requirements.
- The MSCI All Country World Index provides a measure of performance for the equity market throughout the world and is a free float-adjusted market capitalization weighted index.
- The MSCI EAFE Index is a market-capitalization weighted index and tracks the performance of small to large-cap equities in developed markets of Europe, Australasia, and the Far East.
- The MSCI Emerging Markets Index is a float-adjusted market-capitalization index that measures equity market performance in global emerging markets and cannot be purchased directly by investors.
- The S&P Global BMI sector indices are into sectors as defined by the widely used Global Industry Classification Standards (GICS) classifications. Each sector index comprises those companies included in the S&P Global BMI that are classified as members of respective GICS® sector. The S&P Global BMI Indices were introduced to provide a comprehensive benchmarking system for global equity investors. The S&P Global BMI is comprised of the S&P Emerging BMI and the S&P Developed BMI. It covers approximately 10,000 companies in 46 countries. To be considered for inclusion in the index, all listed stocks within the constituent country must have a float market capitalization of at least $100 million. For a country to be admitted, it must be politically stable and have legal property rights and procedures, among other criteria.
- The Barclay's US Aggregate Index, a broad based unmanaged bond index that is generally considered to be representative of the performance of the investment grade, US dollar-denominated, fixed-rate taxable bond market.
- The Bloomberg Barclay's US Corporate High Yield Index, which covers the USD-denominated, non-investment grade, fixed-rate, taxable corporate bond market.
- The ICE BofAML Emerging Markets Sovereign Bond Index is a subset of The BofA Merrill Lynch World Sovereign Bond Index excluding all securities with a country of risk that is a member of the FX G10, all Western European countries, and territories of the U.S. and Western European countries. The FX G10 includes all Euro members, the U.S., Japan, the U.K., Canada, Australia, New Zealand, Switzerland, Norway, and Sweden.
- The Bloomberg Barclays Global Aggregate Index, which measures global investment grade debt from twenty-four local currency markets. This multi-currency benchmark includes treasury, government-related, corporate and securitized fixed-rate bonds from both developed and emerging markets issuers.
- The S&P Global Developed Sovereign Bond index includes local-currency denominated debt publicly issued by governments in their domestic markets.
- S&P Eurozone Developed Sovereign Bond - seeks to measure the performance of Eurozone government bonds.
- The S&P Pan-Europe Developed Sovereign Bond Index is a comprehensive, market-value-weighted index designed to track the performance of local currency-denominated securities publicly issued by Denmark, Norway, Sweden, Switzerland, the U.K. and developed countries in the Eurozone for their domestic markets.
- ICE BofAML Emerging Markets Sovereign Bond - tracks the performance of US dollar (USD) and Euro denominated emerging markets non-sovereign debt publicly issued within the major domestic and Eurobond markets.
- The Bloomberg Barclay's US Corporate Bond Index (AA), which measures the investment grade, fixed-rate, taxable corporate bond market. It includes USD denominated securities publicly issued by US and non-US industrial, utility and financial issuers.
- The Bloomberg Barclay's US Corporate High Yield Index, which covers the USD-denominated, non-investment grade, fixed-rate, taxable corporate bond market.
- Bloomberg Barclay's Global Aggregate Securitized- US Mortgage-Backed Securities, which is a component of the Bloomberg Barclay's US Aggregate Index and measures investment grade mortgage backed pass-through securities of GNMA, FNMA, and FHLMC.
- Bloomberg Barclay's Global Aggregate Securitized- US Asset-Backed Securities, which is a component of the Bloomberg Barclay's US Aggregate Index and includes the pass-throughs, bullets, and controlled amortization structures of only the senior class of ABS issues.
- The Blomberg Barclay's US Floating Rate Notes (<5 Yr) Index, measures the performance of U.S dollar-dominated, investment grade floating rate notes with maturities less than 5 years.
- The Bloomberg Barclay's Municipal Bond Index, which measures investment grade, tax-exempt bonds with a maturity of at least one year.
- The S&P/ LSTA Leveraged Loan Index is designed to reflect the performance of the largest facilities in the leveraged loan market.

**Key Indicators**

Key Indicators correspond to various macro-economic and rate-related data points that we consider impactful to equity markets.

- The US 10-Year Treasury Yield (%)/bps, is the return on investment for the U.S. government's 10-year debt obligation and serves as a signal for investor confidence.
- SPDR Gold Trust Price ($), is an investment fund that reflects the performance on the price of a gold bullion, less the Trust's expenses.
- West Texas Intermediate, which is an oil benchmark and the underlying asset in the New York Mercantile Exchange's oil futures contract.
- CBOE Volatility Index (Level)/% Change, which uses price options on the S&P 500 to estimate the market's expectation of 30-day volatility.
- Core Consumer Price Index, which measures the consumer price index excluding food and energy prices. Shown as of the prior month-end.
- Breakeven Inflation: uses 5- or 10-Year Treasury Constant Maturity Securities and 5- or 10-Year Treasury Inflation–Indexed Constant Maturity Securities to derive expected inflation.

**General Disclosure**

# Notes & Disclosures

**Performance Commentary Disclosures**

Performance observations relative to positioning are derived from analysis of representative accounts for each strategy. These accounts were selected on the basis of non-performance factors such as longevity, stability, minimal flows and adherence to the model. Performance attribution is an analytical process used to understand the factors contributing to a portfolio's relative performance. For equity portfolios, it dissects a portfolio's relative performance into sector weighting and security decisions. "Contribution" refers to contribution to total return. Discussions of asset class, equity sector, fixed income sector, commodity and cash holdings are generalized discussions of the portfolio's holding corresponding to those categories and may or may not constitute a comprehensive list of securities held during the performance period. Sector attribution and security contribution to return are calculated based on the gross-of-fees return of the representative account selected as described above, for a Measurement Period defined as the three-month period ended as of the date indicated. Returns, holdings and characteristics may differ between accounts managed according to the strategy. Available at request is information on calculation methodology and a list showing every holding's contribution to the overall account's performance during the measurement period. To request this information, please email info@wstam.com or contact the representative who provided this information.

**Composite Information**

The International Select Risk-Managed Composite has an inception date of September 30, 2013 and consists of all fee-paying, fully discretionary accounts under active management at WST that adhere to the International Select Risk-Managed strategy. The strategy utilizes a tactical approach built on a proprietary quantitative framework that is designed to achieve attractive risk-adjusted returns through capital appreciation and income. The International Select Risk-Managed strategy invests in a broad range of the International Equity market from Developed to Emerging. The strategy will take a focused approach to the International market by generally investing 50 to 100% of the portfolio in a broad international index and/or 25% each in two Global Sector indices. During less favorable environments or when attractive investment opportunities are limited, the strategy has the flexibility to invest in bonds or a money market fund. This strategy is generally implemented through the trading of mutual funds or exchange-traded funds. Prior to October 24, 2016, the International Select Risk-Managed strategy was referred to by WST as the WST Asset Manager – Focused International Equity strategy. The composite was created October 2016. The composite is measured against the MSCI ACWI ex USA Index Gross Returns. The MSCI ACWI ex USA Index is designed to provide a broad measure of stock performance throughout the world, with the exception of U.S.-based companies.

The Diversified Income Risk-Managed Composite has an inception date of June 30, 2013 and consists of all fee-paying, fully discretionary accounts under active management at WST that adhere to the Diversified Income Risk-Managed strategy. The strategy utilizes a tactical approach built on a proprietary quantitative framework that is designed to achieve attractive risk-adjusted returns through capital appreciation and income. The strategy invests in exchange-traded funds covering a broad range of the corporate capital structure, debt to equity. In addition to a broad capital structure mandate, the strategy overlays a diverse asset class base such as Real Estate Investment Trusts ("REITs"), Master Limited Partnerships ("MLPs"), Dividend Strategies and High Yield Debt. During less favorable environments or when attractive investment opportunities are limited, the strategy has the flexibility to invest in an actively managed investment grade bond fund, treasuries or investment grade floating rate notes. This strategy is generally implemented through the trading of a limited universe of individual stocks or exchange-traded funds. Prior to October 24, 2016, the Diversified Income Risk-Managed strategy was referred to by WST as the WST Asset Manager – Diversified Income strategy. The composite was created October 2016. The market index displayed for comparison to the Diversified Income Risk-Managed Composite is the NASDAQ US Multi-Asset Diversified Income Index. The NASDAQ Multi-Asset Diversified Income Index. The NASDAQ US Multi-Asset Diversified Income Index is designed to provide exposure to multiple asset segments, each selected to result in a consistent and high yield for the index. The Index is comprised of securities classified as US equities, US Real-Estate Investment Trusts (REITs), US preferred securities, US master-limited partnerships (MLPs) and a high-yield corporate debt ETF. For comparison purposes, the benchmarks are fully invested and actual performance may vary. Market indices are unmanaged and do not reflect the deduction of fees or expenses. We consider an index to be a portfolio of securities whose composition and proportions are derived from a rules based model. See the appropriate disclosures regarding models, indices and the related performance.

The Global Allocation Risk-Managed Composite has an inception date of December 31, 2014 and consists of all fee-paying, fully discretionary accounts under active management at WST that adhere to the Global Allocation Risk-Managed strategy. The strategy utilizes a tactical approach built on a proprietary quantitative framework that is designed to achieve attractive risk-adjusted returns through capital appreciation and income. The strategy generally invests 65% of the portfolio in a diversified global equity portfolio and 35% in an income strategy focused on the broad range of the corporate capital structure, debt to equity. In addition to a broad capital structure mandate, the strategy overlays a diverse asset class base such as Real Estate Investment Trusts ("REITs"), Master Limited Partnerships ("MLPs"), Dividend Strategies and High Yield Debt. During less favorable environments or when attractive investment opportunities are limited, the strategy has the flexibility to invest in an actively managed investment grade bond fund, treasuries or investment grade floating rate notes. This strategy is generally implemented through the trading of a limited universe of individual stocks or exchange-traded funds. Prior to October 24, 2016, the Global Allocation Risk-Managed strategy was referred to by WST as the WST Asset Manager – Global Balanced strategy. The composite was created October 2016. The composite is measured against a blended benchmark comprised of 60% of the MSCI ACWI Index Gross Returns and 40% of the Bloomberg Barclays U.S. Aggregate Bond Index. The blended benchmark is rebalanced monthly. The MSCI ACWI Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets. The Bloomberg Barclays U.S. Aggregate Bond Index covers the USD-denominated, investment-grade, fixed-rate, taxable bond market of SEC-registered securities. The index includes bonds from the Treasury, Government-Related, Corporate, MBS, ABS, and CMBS sectors.

The Emerging Markets Risk-Managed Composite has an inception date of December 31, 2015 and consists of all fee-paying, fully discretionary accounts under active management at WST that adhere to the Emerging Markets Risk-Managed strategy. The Emerging Markets Risk-Managed strategy allocates among the various debt and equity segments to include specific countries and broad market indices. During less favorable environments or when attractive investment opportunities are limited, the strategy has the flexibility to invest 100% in short duration investment grade bonds. This strategy is generally implemented through the trading of mutual funds or exchange-traded funds. Prior to January 31, 2017, the Emerging Markets Risk-Managed strategy was referred to by WST as the WST Asset Manager – Risk Managed Emerging Markets strategy. The composite was created October 2016.

The Global Bond Risk-Managed Composite has an inception date of December 31, 2013 and consists of all fee-paying, fully discretionary accounts under active management at WST that adhere to the Global Bond Risk-Managed strategy. The strategy utilizes a tactical approach built on a proprietary quantitative framework that is designed to achieve attractive risk-adjusted returns through income and capital appreciation. The strategy invests in a broad range of the Global Fixed Income market from Developed Investment Grade to Emerging High Yield. During less favorable environments or when attractive investment opportunities are limited, the strategy has the flexibility to invest in short duration investment grade bonds. This strategy is generally implemented through the trading of mutual funds or exchange-traded funds. Prior to January 31, 2017, the Global Bond Risk-Managed strategy was referred to by WST as the WST Asset Manager – Global Bond strategy. The composite was created October 2016

Valuations are computed and performance is reported in U.S. dollars. Returns are presented gross and net of management fees and include the reinvestment of all income and dividends. Net of fee performance was calculated using actual management fees. Some accounts in the composite pay a "wrap fee" which is an all-inclusive or bundled fee based on a percentage of assets under management and may include investment management services, transaction costs/brokerage commissions, portfolio monitoring, consulting services, and custodial services. Gross performance results for wrap accounts in the composite are gross of the entire wrap fee information as transaction expenses have not been deducted. Past performance is not a guarantee of future results. Investment advisory fees are described in Wilbanks Smith & Thomas Asset Management, LLC's Form ADV 2A. To illustrate the possible effect of fees on the total return of an account, what follows is an illustration: A client investing in the comparative index S&P 500 over the last 10 years (as of December 31, 2015) would have earned 7.31% return on an annualized basis. With the effect of fees at 2.00% per year, this client can then expect their net return to be 5.16% per year compounded over the same time period.